

Message Text

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ACTION EB-07

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SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 5845

INFO AMEMBASSY VIENNA

C O N F I D E N T I A L CARACAS 14094

EO 11652 GDS

TAGS: ENRG VE

SUBJ: PETROVEN DIRECTOR TAKES ISSUE WITH US STATEMENTS

ON OIL PRICING

REF: A CARACAS 11617, B CARACAS 13139(NOTAL)

1. SUMMARY DR ALIRIO PARRA, PETROVEN DIRECTOR RESPONSIBLE FOR OIL PRICING, MET WITH EMBASSY OFFICERS TO STRESS THAT RECENT ADJUSTMENTS IN THE PRICES OF VENEZUELAN OIL AND PRODUCTS WERE MADE ON THE BASIS OF MARKET FORCES AND WERE NOT BASED ON POLITICAL CONSIDERATIONS. HE SAID PETROVEN ACTUALLY HAS HELD PRICES SLIGHTLY BELOW THE LEVELS HE BELIEVES ARE JUSTIFIED BY CURRENT MARKET DEMAND. END SUMMARY.

2. DR ALIRIO PARRA, PETROVEN DIRECTOR IN CHARGE OF PRICE AND SUPPLY MATTERS, MET AT HIS SUGGESTION WITH ECONCOUNS AND PETOFF TO CLARIFY PETROVEN'S PRICING POLICY FOR EXPORT SALES OF CRUDE AND OIL PRODUCTS. HE SAID THAT IN VIEW OF RECENT COMMENTS BY US OFFICIALS, SPECIFICALLY A REPORT IN A RECENT ISSUE OF PLATT'S OILGRAM THAT VENEZUELA WAS "JIGGLING"

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PRICES, HE WISHED TO REITERATE THAT RECENT CHANGES IN

PETROVEN'S PRICES, PARTICULARLY FOR FUEL OIL, WERE BASED SOLELY ON THEIR ASSESSMENT OF THE MARKET AND WERE NOT DICTATED BY THE GOV OR BY POLITICAL CONSIDERATIONS. (REF 1).

3. PARRA SAID THAT PETROVEN HAS MADE IT A POLICY TO MAINTAIN ITS INDEPENDENCE FROM THE GOV, AND PARTICULARLY FROM THE MINISTRY OF MINES AND HYDROCARBONS, IN OPERATION MATTERS. WHILE IT MUST OF COURSE CONFORM TO GENERAL POLICY GUIDELINES OF THE GOV (AND THUS OF OPEC) IN PRICING AND PRODUCTION, OPERATIONAL DECISIONS ARE BASED ON MARKET FORCES AND TECHNICAL CONSIDERATIONS. HE SAID PRICE ADJUSTMENTS, MADE QUARTERLY FOR CRUDE OIL AND , SINCE OCTOBER, MONTHLY FOR FUEL OIL, ARE THE RESULT OF DETAILED ANALYSIS OF CURRENT AND PROSPECTIVE MARKET CONDITIONS BY PETROVEN AND ITS OPERATING SUBSIDIARIES. THE FINAL PRICE LIST IS GIVEN TO THE MINISTER OF MINES FOR A PRO FORMA APPROVAL ABOUT ONE HOUR BEFORE IT IS CABLED TO BUYERS. HE INSISTED THAT THERE HAS BEEN NO MINISTERIAL INPUT IN RECENT PRICING DECISIONS.

4. ON THE SUBJECT OF FUEL OIL PRICES, PARRA SAID THE DECEMBER SALES PRICE FOR 2.8PERCENT SULFUR FUEL OIL HAS BEEN FIXED AT \$11.08 PER BARREL, UP 34 CENTS FROM THE NOVEMBER PRICE. THIS WAS AT LEAST 10 CENTS FROM THE NOV PRICE. THIS WAS AT LEAST 10 CENTS PER BARREL BELOW THE LEVEL INDICATED BY PETROVEN'S ANALYSIS OF MARKET CONDITIONS, BUT HE SAID PETROVEN WISHED TO MODERATE THE MARKET WHICH WAS RISING BECAUSE OF THE CURRENT STRONG DEMAND FOR FUEL OIL IN THE US CITING REPORTS OF RECENT COLD WEATHER IN THE NORTHEAST AND THE SOUTHERN STATES, HE EXPECTED PRICES IN EARLY DECEMBER TO JUMP EVEN HIGHER THAN PETROVEN'S INCREASE. ACKNOWLEDGING THAT THESE PRICES WOULD EVENTUALLY PEAK AND THEN FALL, HE SAID PETROVEN WOULD THEN REDUCE ITS PRICES. HE ALSO AGREED THAT CHANGES EARLIER IN THE YEAR IN THE US ENTITLEMENT PROGRAM HAD BENEFITTED VENEZUELA, BUT CLAIMED THEY WERE PRINCIPALLY INTENDED TO REMOVE SOME OF THE DISTORTIONS IN PRICES WITHIN THE US. FINALLY, HE SAID THAT HAD PETROVEN NOT INCREASED ITS PRICES, THE ADDITIONAL MARGIN WOULD HAVE GONE TO THE BUYERS OF ITS FUEL OIL.

5. TURNING TO CRUDE OIL, PARRA COMMENTED THAT IF OPEC SHOULD
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DECIDE NOT TO RAISE PRICES OR IF THE INCREASE IS ON THE ORDER OF 5PERCENT, SPECULATORS WHO HAVE BUILT UP STOCKS AT THE CURRENT HIGHER PRICES WILL BE FORCED TO UNLOAD THESE QUICKLY TO AVOID CONTINUING STORAGE CHARGES. HE SUGGESTED THAT THESE SPECULATORS WOULD NEED AN INCREASE OF ABOUT \$1 PER BARREL TO COME OUT AHEADS. HE GAVE NO INDICATION, HOWEVER, OF WHAT HE BELIEVES OPEC SHOULD OR WOULD DECIDE ON PRICES. PETROVEN, HE SAID, HAS NOW BEGUN WORK ON ITS PRICE LIST FOR THE FIRST QUARTER OF 1977. AT THIS STAGE,

THESE CALCULATIONS ARE BEING MADE INDEPENDENT OF ANY CHANGE IN OPEC LEVELS; ANY DECISION IN THIS REGARD CAN BE FACTORED IN WITHIN 24 HOURS. FUEL OIL PRICES, WHICH ARE NOT SUBJECT TO OPEC, WILL CONTINUE TO BE BASED ON MARKET FORCES AND WILL PROBABLY NOT BE AFFECTED BY A CHANGE IN OPEC CRUDE OIL PRICES.

6. HE EXPRESSED SOME DISSATISFACTION WITH PETROVEN'S CURRENT POLICY OF ADJUSTING FUEL OIL PRICES THE FIRST OF EACH MONTH, HE IS CONSIDERING A SHIFTING TO A SYSTEM OF PRICE REOPENERS, UNDER WHICH BOTH THE SELLER(PETROVEN) AND THE BUYERS WOULD HAVE POSSIBLY TWO OPPORTUNITIES EACH QUARTER TO REOPEN THE QUESTION OF PRICES. SINCE THE TIMING OF THESE REOPENERS WOULD NOT BE FIXED, AND THEY COULD BE USED EITHER TO RAISE OR LOWER PRICES, HE SEES THIS SYSTEM AS MORE FLEXIBLE AND THUS BETTER ABLE TO FOLLOW THE MARKET.

7. PARRA ALSO COMMENTED ON A RECENT PRESS REPORT QUOTING MINISTER OF MINIES HERNANDEZ TO THE EFFECT THA THE GOV WOULD HOLD OIL PRODUCTION OVER THE NEXT FIVE YEARS TO AN AVERAGE RATE OF 2.3 MILLION BARRELS PER DAY(RATHER THAN 2.2 MILLION B/D AVERAGE RATE FOR EACH YEAR, THE TERMS USUALLY USED UNTIL NOW TO DESCRIBE THE GOV'S CONSERVATION POLICY). PARRA SAID THAT WHILE HE HAD NOT BEEN OFFICIALLY INFORMED OF THIS DECISION, HE WAS PLEASED TO HEAR THAT THE MINISTER HAD ADOPTED IT SINCE PETROVEN HAS BEEN PRESSING FOR A HIGHER PRODUCTION LEVEL AND MORE YEAR TO YEAR FLEXIBILITY IN ORDER TO MEET MARKET DEMAND. HE AGAIN REPEATED THAT IN ORDER TO MEET EXISTING SUPPLY COMMITMENTS AND STILL CONFORM TO THE EXISTING GOV REQUIREMENT TO HOLD AVERAGE PRODUCTION THIS YEAR BELOW 2.3 MILLION B/D, PETROVEN IS DRAWING DOWN ITS PRESENT STOCKS(REF 2).

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8. COMMENT. THROUGHOUT OUR CONVERSATIO, PARRA PLACED GREAT STRESS ON HIS DESIRE TO SEE PETROVEN FUNCTION WITHIN THE MARKET, AND APPEARED TO PERSONALLY RESENT ANY SUGGESTION THAT PRICE ADJUSTMENTS ARE BASED ON OTHER THAN MARKET FACTORS. WE CLEARLY ARE NOT ABLE TO JUDGE WHETHER ON BALANCE PETROVEN'S PRICES HAVE TENDED TO LEAD OR FOLLOW US MARKET PRICES FOR FUEL OIL. US OIL COMPANY SOURCES HERE GENERALLY SEEM TO AGREE THAT PETROVEN'S FUEL OIL PRICES ARE NOT ABOVE CURRENT MARKET LEVELS, BUT ALSO POINT OUT THAT BY HOLDING KOWN PRODUCTION, VENEZUELA HAS HELPED TO STRENGHTEN THAT MARKET.
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